

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Renosterberg Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Renosterberg Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Renosterberg Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

### Basis for qualified opinion

#### Work in progress

3. The municipality did not disclose work-in-progress information in accordance with GRAP 17, *Property, plant and equipment*. The municipality did not include a disclosure for long outstanding projects. The information needed to include the nature and financial effects of the long outstanding projects. I have not included the omitted information in this auditor's report for the current year as it was impracticable to do so.

#### Investment property

4. The municipality did not have adequate systems to account for investment property in accordance with GRAP 16, *Investment property*. The municipality did not record all land registered in the municipality's name. I was unable to determine the impact on the net carrying amount of investment property for the current and prior year as it was impracticable to do so. In addition, the fair value of investment property was not determined for the current and prior year as required by GRAP 16. I was unable to determine the impact on the net carrying amount of investment property as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

#### Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for accrued leave pay and suspense accounts included in payables from exchange transactions due to the status of accounting

records, lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm the accrued leave pay and suspense accounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to accrued leave pay stated at R3 315,733 and suspense accounts stated at R2 730 511 in note 13 to the financial statements.

6. The municipality did not recognise payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Other payables were incorrectly classified as trade payables. This resulted in an overstatement of trade payables of R7 669 197 and general expenditure of R1 500 000 and an understatement of other payables by R6 169 197.
7. During 2023, I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements and properly implement controls over record keeping. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R213 130 276 in note 13 of the financial statements. In addition, the municipality did not account for trade payables in accordance with GRAP 1, *Presentation of financial statements*, as the creditors statements did not agree to the balances listed in the underlying schedules of payables. This resulted in trade payables being understated by R2 986 135 and consequently general expense – IT expenses and bulk purchases were understated by R113 865 and R3 100 000 respectively. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### General expenses

8. The municipality did not have adequate systems to account for all general expenses in accordance with GRAP 1, *Presentation of financial statements*, as not all general expenses were recorded. This resulted in general expenses and payables from exchange transactions being understated by R8 612 420. Additionally, there was an impact on the deficit for the period.
9. I was also unable to obtain sufficient appropriate audit evidence for consulting and professional fees due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm consulting and professional fees by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consulting and professional fees stated at R3 503 304(2023: R10 351 791) in note 33 to the financial statements.
10. During 2023, the municipality did not have adequate systems to account for consulting and professional fees in accordance with GRAP 1, *Presentation of financial statements*, as there were differences between amounts recorded and supporting invoices. This resulted in consulting and professional fees and payables from exchange transactions being understated by R1 744 691. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

11. During 2023, the municipality did not have adequate systems to account for all IT expenses in accordance with GRAP 1, *Presentation of financial statements*, as not all IT expenses were recorded. This resulted in IT expenses and payables from exchange transactions being understated by R4 612 793. Additionally, there was an impact on the deficit for the period.
12. During 2023, the municipality did not have adequate systems to account for landfill provision expense in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. The change in measurement required to be capitalised to the cost of the related asset was incorrectly recorded as an expense. This resulted in landfill provision expense being overstated and infrastructure included under property plant and equipment being understated by R1 625 085. Additionally, there was an impact on the deficit for the period.
13. During 2023, the municipality did not have adequate systems to account for telephone and fax expenses in accordance with GRAP 1, *Presentation of financial statements*, as telephone and fax expenses was not recorded at accurate amounts. This resulted in telephone and fax expenses and payables from exchange transactions being overstated by R1 872 821. Additionally, there was an impact on the deficit for the period.

#### Finance costs

14. The municipality did not have adequate systems to account for all finance costs in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not account for finance cost charged by the pension funds. This resulted in finance costs and payables from exchange transactions being understated in the current and previous year. I was unable to determine the full extent of the misstatement as it was impractical to do so. Additionally, there was an impact on the deficit for the period.

#### VAT receivable

15. I was unable to obtain sufficient appropriate audit evidence that VAT receivable for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable stated at R11 159 233 (2023: R6 643 437) in the financial statements.

#### Revenue from exchange transactions - Service charges

16. The municipality did not recognise all revenue from exchange transactions relating to water in accordance with GRAP 9, Revenue from exchange transactions. The municipality did not bill for all services rendered to consumers. I was unable to determine the full extent of the understatement of water included in service charges, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to water stated at R 3,691,229 in note 18 of the financial statements. In addition, there was a resultant impact on the surplus for the period, receivables from exchange transactions and VAT payable.
17. I was unable to obtain sufficient appropriate audit evidence for refuse removal, as the municipality did not maintain accurate and complete records for refuse removal. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether

any adjustment was necessary to revenue forgone stated at R2 2 66 102 in note 18 of the financial statements.

18. During 2023, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for sale of water, as supporting documentation for meter readings was not provided. I could not confirm sale of water by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of water stated at R3 691 229 in note 18 to the financial statements. In addition, the municipality did not recognise all revenue from exchange transactions relating to sale of water in accordance with GRAP 9, *Revenue from exchange transactions*. I was unable to determine full extent of the understatement as it was impracticable to do so.
19. During 2023, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for sale of electricity as supporting documentation was not provided. I could not confirm sale of by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of electricity stated at R3 495 833 in note 18 to the financial statements. In addition, the municipality did not recognise all revenue from exchange transactions relating to sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*. This resulted in the sale of electricity and consumer receivables from exchange transactions being understated by R2 483 353.
20. During 2023, I was unable to obtain sufficient appropriate audit evidence for revenue forgone, as the municipality did not maintain accurate and complete records of the indigent listing used to determine revenue forgone. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue forgone stated at R3 329 116 in note 18 of the financial statements.
21. Service charges was materially misstated by R2 031 919 due to the cumulative effect of individually immaterial uncorrected misstatements in service charges:
  - Sale of electricity stated at R3 495 833 was overstated by R471 649
  - Sale of sewerage and sanitation charges stated at R4 725 692 was understated by R108 695
  - Revenue forgone stated at R4 413 384 was overstated by R554 049

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm service charges by alternative means:

- Sale of electricity of R1 114 896 as included in the total of R3 495 833

### Revenue from non-exchange transactions

22. The municipality did not have adequate systems in place to account for income forgone on property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*, which resulted in an understatement of revenue forgone of R2 310 906, understatement of and small holdings is overstated by R1 823 978 and farms revenue, residential being understated by R486 928.

### Consumer receivables from exchange transactions

23. The municipality recognised items that did not meet the definition of receivables in accordance with GRAP 104, *Financial Instruments*. Consumer receivables included inactive accounts that could not be verified. Consequently, the gross balance of consumer receivables from exchange transactions was overstated by R3 363 993 (2023: R2 528 701). There was a resultant impact on the provision for debt impairment and on the accumulated surplus.
24. The municipality did not recognise interest earned on outstanding debtors from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest on arrear accounts. I was unable to determine the full extent of the understatement of interest earned on outstanding debtors included in revenue from exchange transactions and trade receivables from exchange transactions for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
25. I was unable to obtain sufficient appropriate audit evidence for the allowance for impairment due to the status of the accounting records. Assumptions used in the calculation of allowance for impairment could not be supported. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the allowance for impairment stated at R53 204 626 (2023: R91 092 626) in note 7 to the financial statements. In addition, the municipality did not recognise allowance for impairment of consumer debtors in accordance with the Standards of GRAP 104, *Financial Instruments*. Incorrect impairment rate was used in calculating the impairment provision for the different classifications for long outstanding debtors was applied. Consequently, the provision for impairment included in an overstatement of receivables from exchange transactions by R5 418 578 and an understatement of consumer receivables from exchange transactions understated by R5 418 578.

### Statutory receivable from non-exchange transactions

26. The municipality did not recognise interest earned on outstanding debtors from non-exchange transactions in accordance with GRAP 104, *Financial instruments*, as the municipality did not charge interest on arrear accounts. I was unable to determine the full extent of the understatement of interest earned on outstanding debtors included in revenue from non-exchange transactions and trade receivables from non-exchange transactions for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
27. The municipality did not recognise allowance for impairment of statutory receivables from non-exchange transactions in accordance with the Standards of GRAP 104, *Financial Instruments*. Incorrect impairment rate was used in calculating the impairment provision for the different classifications for long outstanding debtors was applied. Consequently, the provision for impairment included in the receivables from exchange transactions is overstated and statutory receivables from non-exchange transactions is understated by R2 894 074.
28. During 2023, I was unable to obtain sufficient appropriate audit evidence for the allowance for impairment due to the status of the accounting records. Assumptions used in the calculation of

allowance for impairment could not be supported. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to debt impairment stated at R19 133 380 in note 5 to the financial statements.

29. During 2023, the municipality did not have adequate systems to account for statutory receivables from non-exchange transactions in accordance with GRAP 104, *financial instrument*. The municipality did not include all consumers in the age analysis. Consequently, statutory receivables from non-exchange transactions were understated by R2 726 760.

### Current assets

30. Current assets were materially misstated by R1 751 691 due to the cumulative effect of individually immaterial uncorrected misstatements in service charges:

- Receivables from exchange transactions stated at R0 was understated by R1 211 526
- Inventory stated at R24 286 understated by R540 435

### Total expenditure

31. Total expenditure was materially misstated by R4 041 704 due to the cumulative effect of individually immaterial uncorrected misstatements in expenditure:

- Employee related costs- Basic stated at R19 672 778 was overstated by R422 509
- Employee related costs- Housing allowance stated at R1 211 256 was overstated by R1 211 256
- Bulk purchases - Electricity- Eskom stated at R14 252 584 was overstated by R302 598
- Bulk purchases – Water stated at R540 435 was overstated by R540 435
- Auditors' remuneration stated at R5 622 357 was understated by R300 000
- General expenses - Travel- local stated at R538 042 was understated by R33 560
- Employee costs stated at R30 175 598 was understated by R535 547

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure by alternative means:

- General expenses- Bank charges R14 663 as included in the total of R81 879
- General expenses – Chemicals R29 436 as included in the total of R69 963
- General expenses- Fuel and oil R553 606 as included in the total of R553 606
- General expenses- Hire R146 453 as included in the total of R146 453
- General expenses - Telephone and fax R293 539 as included in the total of R425 838

- General expenses - Printing and stationery R120 694 as included in the total of R251 497
- General expenses - Motor vehicle expenses R204 527 as included in the total of R204 527

### Change in estimate

32. The municipality did not disclose change in estimate in accordance with GRAP 3, *Accounting Policies, Changes in Accounting Estimates And Errors Financial Instruments*. The effects of the change in estimate as a result of an increase in the provision of landfill sites were presented as a disposal of infrastructure assets in note 10 to the financial statements. As a result the required disclosures for change in estimates were not included in the financial statement. I have not included the omitted information in this auditor's report for the current year as it was impracticable to do so.

### Net cash flows from operating activities

33. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R26 700 705 (2023: R17 523 262) in the financial statements were necessary.

### Net cash flows from investing activities

34. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities in the prior year. I was not able to determine the full extent of the errors in the net cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R24 2014 670 in the financial statements were necessary.

### Statement of Comparison of Budget and Actual Amounts

35. The municipality did not disclose the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements*. The explanations for material variances were not disclosed. In addition, the comparison between the budgeted and the actual cash flow amounts were not disclosed. The budget amounts used did not agree to the approved budget. I was not able to determine the full extent of the errors and omissions in the statement of comparison of budget and actual amounts as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the statement of comparison of budget and actual amounts in the financial statements was necessary.

### **Irregular expenditure**

36. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, as the municipality did not maintain accurate and complete records of the information used to determine irregular expenditure. I was unable to confirm irregular expenditure by alternative means. In addition, the municipality did not include all irregular expenditure incurred in contravention of supply chain management (SCM) requirements, which was not disclosed. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure stated at R23 120 268 (2023: R18 017 326) in note 47 to the financial statements.

### **Unauthorised expenditure**

37. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year under review due to the poor status of the accounting records. I could not confirm the balance by alternative means. Furthermore, the municipality did not disclose the unauthorised expenditure incurred in the current year in note 45 to the financial statements, as required by section 125(2)(d) of the MFMA. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R270 472 984 (2023: R270 472 984) in note 45 to the financial statements.

### **Fruitless and wasteful expenditure**

38. I was unable to obtain sufficient appropriate audit evidence for the fruitless and wasteful expenditure incurred during the year under review due to the poor status of the accounting records. I was unable to confirm the fruitless and wasteful expenditure by alternative means. In addition, the municipality did not include all the fruitless and wasteful expenditure incurred. Consequently, I was unable to determine whether any adjustment was necessary to the fruitless and wasteful stated at R23 120 268 (2023: R18 017 326) in note 47 to the financial statements.

### **Additional disclosure in terms of Municipal Finance Management Act**

39. The municipality did not disclose additional disclosure in terms of Municipal Finance Management Act section 125(1)(c), inaccurate amounts were disclosed for audit fees, resulting in MFMA required disclosures being understated. I was unable to determine the full extent of the understatement for the current and prior year as it was impracticable to do so.
40. I was unable to obtain sufficient appropriate audit evidence for the distribution losses, pension and medical aid deductions, PAYE and UIF and VAT for the current year under review due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments relating to electricity distribution losses of R 12 790 443 and pension and medical aid deduction of R28 317 514 as disclosed in note 49 to the financial statements were necessary.
41. During 2023, the municipality did not disclose electricity distribution losses in the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not take into account all electricity sales in the calculation for distribution losses, and the distribution losses were overstated by R2 953 576.

## Prior period error

42. I was unable to obtain sufficient appropriate audit evidence that management has properly disclosed all adjustments made to correct trade payables and suspense accounts in prior period errors note, due to the status of the accounting records and non-submission of information in support of these adjustments. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to confirm whether any adjustments to prior period errors were necessary in note 40 to the financial statements. In addition, the municipality did not have adequate systems to account for prior period error in accordance with GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors Financial Instruments*. Loss on disposal of assets and liabilities incorrectly included invalid disposals of land. Identified land disposal that did not constitute disposal of land in the current year, the derecognition was supposed to be done retrospectively. This resulted in loss on disposal of assets and liabilities being.

## Financial instruments disclosure

43. The municipality did not disclose financial instruments in accordance with GRAP 104, *Financial Instruments*. Finance lease obligation was presented in an incorrect amount, trade and other payables and consumer deposits were omitted from the disclosure note in the current year. In addition, the municipality incorrectly included statutory receivables from non-exchange transactions which are scoped out from GRAP 104 requirements.

44. The municipality did not disclose financial instruments in accordance with GRAP 104, *Financial Instruments*. The municipality included payment received in advance, statutory receivables from non-exchange transactions, payments received in advanced - contract in process, accrued leave pay, accrued bonus and salary control which are scoped out from GRAP 104 requirements in the prior year.

## Segment reporting

45. The municipality did not disclose the information pertaining to segment reporting in accordance with GRAP 18, *Segment reporting*. Amounts included in the segment reporting note was incorrectly classified between segments resulting in technical services segment being overstated by R63 766 428 and corporate services/ budget & treasury segment being understated by R63 766 428 in the current year.

46. The municipality did not disclose the information pertaining to segment reporting in accordance with GRAP 18, *Segment reporting*. Amounts included in the segment reporting note was incorrectly classified between segments resulting in technical services segment being understated by R1 888 072 and corporate services/ budget & treasury segment being overstated by R1 888 072 in the prior year.

## Context for opinion

47. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

48. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

49. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matter**

50. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Going concern**

51. I draw attention to note 38 in the financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances.

### **Other matter**

52. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

53. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

54. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the DORA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

55. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Responsibilities of the auditor-general for the audit of the financial statements**

56. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an

auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

57. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page **XX**, forms part of our auditor's report.

### **Report on the audit of the annual performance report**

58. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objectives/ development priorities resented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

59. I could not perform the audit as the annual performance report was not prepared as required by section 46 of the Municipal Systems Act 32 of 2000 and section 121(3)(c) of the MFMA.

### **Report on compliance with legislation**

60. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

61. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

62. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

63. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Annual financial statements, performance reports and annual reports**

64. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and revenue identified by the auditors in the submitted financial statements

were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

65. The 2022/23 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

### **Procurement and contract management**

66. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of SCM Regulation 17(1)(a) and (c).
67. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
68. Sufficient appropriate audit evidence could not be obtained that goods and services within the prescribed transaction value for competitive bids were procured by inviting competitive bids as required by SCM Regulations 19(a) and 36(1). This non-compliance was identified in the procurement processes for the fuel.
69. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the new sewer network for Phillipstown to replace existing septic tanks.
70. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the new sewer network for Phillipstown to replace existing septic tanks and Philipstown water distribution and supply upgrade: Phase 1 - Softener and Chlorination plant.

### **Expenditure management**

71. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
72. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
73. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.
74. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph.

75. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph.

### **Consequence management**

76. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

77. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

78. Some of the losses resulting from irregular expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA.

79. Losses resulting from irregular expenditure were certified council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

80. Some of the losses resulting from fruitless and wasteful expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA.

81. Some of the fruitless and wasteful expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

### **Strategic planning and performance management**

82. The service delivery budget implementation plan (SDBIP) for the year under review was not developed by the mayor, as required by section 53(1)(c)(ii) of the MFMA.

83. Key performance indicators (KPIs) were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulation 9(1)(a).

84. No KPIs were set in respect of the provision of basic water, sanitation, electricity and solid waste removal services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

85. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

86. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

87. A performance management system was not established, as required by section 38(a) of the MSA.

### Revenue management

88. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

89. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Asset management

90. An investment policy was not adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

### Human resource management

91. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

## Internal control deficiencies

92. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

93. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

94. The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities and consequence management measures were not fully implemented.

95. Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that the reports were free from material misstatements and that material deviations from legislation did not occur. Financial statements were submitted without complete and accurate underlying records for some financial statement line items and management did not adequately ensure the collection, collation, verification, storing and reporting of actual performance information.

96. The municipality did not conduct a risk assessment, an audit committee was not established during the year under review and the internal audit unit was not functioning, as a result there was no proper oversight and monitoring of internal controls to prevent and detect

misstatements in the financial statements, and to ensure compliance with legislation and prepare annual performance report.

## Material irregularities

97. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

### Material irregularities identified during the audit

98. The material irregularities identified are as follows:

#### APR not submitted for audit purposes

99. The municipality has not prepared and submitted an annual performance report for the past seven years as they do not have proper systems in place. There are significant deficiencies in the municipality performance reporting processes in contravention of regulation 7(1) of the Municipal Planning and Performance Regulations of 2001.
100. The non-compliance was likely to result in substantial harm to the municipality. The lack of an APR was causing harm to the operations of the municipality and the ability of the municipality and the extended accountability ecosystem to execute their management, accountability, oversight and governance functions. The disruption in the operations of the municipality, was rendering it unable to properly plan, budget, report and monitor the performance and actual delivery of basic services and other functions at management, council, district, provincial, national and executive level.
101. I notified the accounting officer of the material irregularity on 15 April 2024 and invited the accounting officer to make a written submission on the actions taken and that will be taken to address the matter. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented within six (6) months from the date of the notification with a progress report within three (3) months:
1. The non-compliance with Municipal Systems Act, section 46 and MFMA, section 121(3)(c) should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to enhance control weaknesses.
  2. Based on the reasons and circumstances, appropriate actions should be taken to develop and commence with the implementation of an action plan to ensure that an annual performance report for the municipality is prepared as required by Municipal Systems Act, section 46.
  3. The plan should include anticipated timeframes and address the following key areas as a minimum:
    - (a) Development and implementation of documented processes for identifying, collecting, collating, verifying and storing of information including the roles of different role-players.

(b) Development and implementation of documentation on performance measurement processes and systems including definitions and technical standards (technical indicator descriptions) for all the information collected by the municipality as part of each annual planning or mid-year review cycle.

(c) Maintaining adequate and complete records of the performance measurement, monitoring, reporting, and review processes for each of the planned key performance indicators.

(d) Ensuring that the performance management unit is sufficiently staffed and capacitated to manage the performance information of the municipality

## **Material irregularities in progress**

102. I identified other material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in next year's auditor's report.

## **Status of previously reported material irregularities**

### **Interest on arrear accounts not charged**

103. The municipality, without a corresponding council resolution granting an exception, failed to charge interest on overdue consumer accounts during the financial year ended 30 June 2023, in contravention of MFMA section 64(2)(g). The non-compliance is likely to result in a material financial loss for the municipality if not recovered, as revenue that should have accrued to the municipality was not billed to the consumer accounts in accordance with the approved tariffs.

104. The accounting officer was notified of the material irregularity on 29 November 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following action have been taken to resolve the material irregularity:

- The municipality started charging interest on arrear service debt accounts as from 1 July 2024.
- The accounting officer has performed a preliminary investigation and are in the process of quantifying the interest not previously charged.

105. I will follow-up on the implementation of the planned actions during my next audit.

### **Overpayment of employees' remuneration**

106. I noted that there were employees' salaries that were not in line with the approved salary scales based on employment contract details and the positions they occupy at the municipality.

107. The municipality failed to ensure that reasonable steps were taken to maintain an effective system of expenditure control including procedures for payment of funds when it comes to employee-related costs in terms of section 65(1) and 65(2)(a) of the Municipal Finance Management Act

108. The non-compliance has resulted in a material financial loss of R1 125 068 by 30 June 2023 for the Renosterberg Local Municipality.
109. I notified the accounting officer on 29 November 2023 and written submission was received from the acting accounting officer on 07 March 2024. The acting accounting officer responded by stating that his contract started on 1 July 2022 and is set to come to an end on the 31st of March 2024. He inherited this matter and cannot decrease the salaries of employees.
110. In a meeting with new acting accounting officer on 28 May, a resolution was taken that this material irregularity be escalated to the necessary structures within the AGSA. I recommend that the accounting officer take the following actions to address the material irregularity, which should be implemented within 6 months from the date of notification with progress reports after three (3) months;
1. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
  2. The financial loss should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed;
  3. Reasonable steps should be taken to implement expenditure controls, as required by section 65(2)(a) of the MFMA, to prevent overpayments on salaries
  4. Disciplinary proceedings should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings;
  5. If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings;
  6. If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this must be reported to the South African Police Service, as required by section 32(6) of the MFMA

#### **Full and proper records not kept**

111. Reasonable steps were not taken in the 2020-21 financial year to ensure that full and proper records were kept, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosure in the financial statements.
112. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.
113. I notified the accounting officer of the material irregularity on 25 July 2022 and invited the accounting officer to make a written submission on the actions taken and that will be taken to address the matter.

114. The following actions have been taken by the acting accounting officer to resolve the material irregularity:

- a. An action plan was developed in line with recommendations provided by the auditors. This plan is in the process of being implemented to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan included the anticipated timeframes to address the following key areas:
  - The preparation of a GRAP compliant asset registers by August 2023 for the 2022-23 financial year. The process will involve scrutiny of underlying records and physical verification of all municipal assets.
  - Billing reconciliation to be performed by reconciling monthly billing reports and agreeing to revenue recognised in the general ledger and trial balance and any variances identified to be followed up.
  - Perform creditor reconciliations for purchases by agreeing to creditors statements and payment vouchers on a monthly basis.

115. I followed up on the implementation of the planned actions during the audit and it was found that the accounting officer is still taking appropriate steps in resolving the material irregularity. The following actions were taken during the year:

- The municipality submitted a Fixed Asset Register that Agreed to the Annual Financial Statements. Contrary to the previous years the auditor was able to perform an audit on the submitted FAR.
- The municipality submitted billing reports that agreed to the Annual Financial Statements.
- The municipality submitted supplier statements which was an improvement to the prior year.
- The municipality should implement proper record keeping to ensure that audit evidence is submitted to auditors timely within agreed timelines.
- The municipality should implement thorough review controls to ensure that audit findings do not reoccur.

116. I considered the above and have concluded that appropriate actions have been taken to address the material irregularity. Communication was sent on 23 October 2024 to notify the accounting officer that the material irregularity is resolved.

## Other reports

117. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
118. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of fraud and corruption. These proceedings were in progress at the date of this report.

*Auditor General*

Kimberley

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### Auditor-general's responsibility for the audit

#### Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives/ development priorities and on the municipality's compliance with selected requirements in key legislation.

#### Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **Communication with those charged with governance**

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)